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Panel: Affordable Care Act Update

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OVERVIEW OF THE CADILLAC TAX

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Purpose of the Tax

- The purpose of the tax is two-fold:
  - Off-set the tax-free status of employer sponsored health insurance, and
  - Bend the healthcare cost curve by suppressing "moral hazard"-- the incentive for consumers to overuse health care because they do not bear all of its costs

Imposition of the Cadillac Tax will lead to more Cost Shifting

Their View

Tax will lead employers and unions to seek out

– more efficient plans, and
– an increase in wages.

Our View

Workers will be forced to consider High Deductible Health Plans (HDHPs), and any savings from such a shift will stay with employers

– HDHPs just shift costs
– The ensuing drops in necessary care & RX will lead to higher long run costs

Our Reasoning

- Providers of care have consolidated over the last 20 years, which leads to additional leverage in price negotiations
  - the announced mega-mergers between Aetna and Humana and between Anthem and Cigna will enhance their pricing power
  - Consumers of care have not consolidated to the same degree, and are left to negotiate over utilization and plan design
  - While employers and union will do everything possible to control unnecessary utilization, they have little impact on pricing and practice patterns

Our Reasoning *cont.*

- On top of the negotiating imbalance sits a number of structural reasons why the tax will not "bend the cost curve"
  - Fee-for-service medicine contains incentives for overuse, underuse and misuse by paying providers who cause complications or are slow to diagnose problems
  - 2 to 1 ratio of specialists to primary care doctors
  - Use of more technology and higher specialty drug prices than any other country
    - Also consider Martin Shkreli's Turing Pharmaceuticals price increase for Daraprin from $13.50 to $750 per pill---not so unusual
  - Physician practice patterns
  - Disease state of a given population
  - Discovery of new diseases and treatments
  - Technological innovation
  - Once a new procedure or drug is considered "medically necessary" by insurers, it's a covered benefit
  - A complicated billing system, which adds administrative costs

One Example

- Hep-C is an infectious liver disease
- It spreads when the blood from an Hep-C infected person enters another person's blood stream. Some common ways people get infected:
  - Contact with infected blood or needles
  - Current or past intravenous (IV) drug use
  - Blood transfusions/organ transplants before 1992
  - Kidney dialysis

One Example *cont.*

- Hep-C is called the “silent disease” because many people live with it for years or even decades before experiencing any symptoms
- However, by the time symptoms appear (i.e. fever, abdominal pain, dark urine, jaundice) liver damage is advanced—leading to a liver transplant that costs about $500,000

One Example *cont.*

- Recent scientific advances have made treatment of Hep-C shorter, more effective (90-95% cure rates), and injection-free.
- However, the cost of a 12 week treatment plan for Sovlaldi, Viekira Pak and Harvoni costs about $1000/day.
- Recent data from a large urban school district shows that 31 patients were treated for Hep-C last year at a cost of $2.4 million.
- The district imagines that more cases will present themselves in the days ahead.

Cadillac Tax

(As originally designed in the Act)

- Beginning in 2018, both fully-insured and self-insured group health plans will pay a 40% tax on the dollar amount of any employee premiums that exceed $10,200 for single coverage ($27,500/family)
- Additionally, the tax applies to overall aggregate costs including total ER &EE premium share plus contributions to FSA, HSA and HRA accounts
- Thresholds to be adjusted for CPI, age, gender & retirees/high risk professions
- Tax is non-deductible

Examples of the potential tax transfer if premiums rise 8% per year

	2013	2014	2015	2016	2017	2018
Single Premium	$8,000	$8,640	$9,331	$10,078	$10,884	$11,755
Family Premium	$20,000	$21,600	$23,328	$25,194	$27,210	$29,238

40% * ($11,755-$10,200) = $622/single * 5000 single EEs = $3,110,000
40% * ($29,238-$27,500) = $695/family * 5000 family EEs = $3,476,000
Total Tax **$6,586,000**

Where Things Stood Before the Budget Deal

- Administration claimed only 7% of employer sponsored plan enrollees would be affected by the tax in 2020
- KFF said about 25% of employer sponsored plans would trip over the Cadillac tax thresholds by 2018, 30% by 2023 and 42% by 2028
- The NBGH expected over 70% of large companies will have at least one plan over the thresholds by 2020

The AFT Survey

- In early November, 2015, we asked locals to fill out a short survey on the Cadillac tax. Here’s what we learned:
  - 5 of 70 locals (7%) reported plan premiums already exceeded the ‘18 thresholds for self only and/or family coverage
  - 25 locals (36%) imagined hitting the tax by 2018
    - 1 in 2016, 4 in 2017, and 20 by 2018
  - 40 locals (57%) had spoken with their ER about the tax
    - 12 locals (30%) had made changes to avoid the tax
    - 28 locals (70%) were considering changes

Impact of the 12/18/15 Budget Agreement on the Cadillac Tax

- The tax is delayed until 1/1/20, two years
- The tax will be deductible

Also proposed in the President's FY17 Budget:

- National thresholds will be increased by the greater of the current thresholds or a gold-plated average premium calculated for each state
- A study of the effects of the excise tax on employers with a high distribution of sick people

Bottom Line:

As a result, Cadillac tax inspired cost shifting has lessened, but employer demands for more cost sharing remain in place.